

BEFORE THE INSURANCE COMMISSIONER
FOR THE STATE OF ARKANSAS

IN THE MATTER OF
COSMOPOLITAN LIFE INSURANCE COMPANY

AID NO. 2007-047

ADOPTION ORDER

Now on this day the matter of the Report of Examination of Cosmopolitan Life Insurance Company ("Company"), Little Rock, Arkansas, NAIC No. 83941, is taken under consideration by Julie Benafield Bowman, Insurance Commissioner for the State of Arkansas ("Commissioner"), and from the facts, matters and other things before her, as presented by Robert Alexander, Associate Counsel for the Arkansas Insurance Department ("Department"), the Commissioner finds as follows:

FINDINGS OF FACT

1. That the Commissioner has jurisdiction over the Company and the subject matter involved herein.
2. That the Company is an Arkansas domiciled stipulated premium stock insurer authorized to transact Life and Accident and Health insurance in the State of Arkansas.
3. That pursuant to Ark. Code Ann. §§23-61-201, et seq., the Commissioner authorized and directed the Department to conduct an examination of the affairs, transactions, accounts, records and assets of the Company as of June 30, 2006.
4. That said examination was commenced by the Department on September 25, 2006, and completed on March 16, 2007.
5. That the verified Report of Examination was filed with the Department on June 14, 2007, was forwarded to the Company via certified mail on June 14, 2007, and was received by the Company on June 18, 2007.
6. That the Report of Examination contains the following comments or discrepancies regarding the Company's operation:
 - a. The Company's bylaws require six (6) directors each of which should be a stockholder. Currently there are only two directors and only one is a stockholder.

- b. The Company's President is also a majority owner of Advanced Insurance Group of America (AIGA) with whom the Company has a management services agreement. This is not disclosed in the conflict of interest statement signed by the Company's President.
 - c. In the Company's accounting areas, internal controls were either lacking or non-existent due to poor record keeping and accounting procedures that were in non-compliance with statutory accounting principles.
 - d. In reviewing the Company's risk based capital report, it was determined that the stop-loss premiums were misclassified and should be reported as stop-loss premiums. The dental premiums were shown as "other health" and should be classified as "dental and vision".
 - e. The Company has been reporting its stop-loss premiums as assumed reinsurance. Therefore the Company has been incorrectly reporting the associated liabilities as assumed reinsurance and not stop-loss premiums. The Company has agreed to properly report all stop-loss premiums as of the third quarter of 2007.
 - f. That as of June 30, 2006, the Company was in a poor financial condition. The Company's independent accounting firm issued a going concern opinion for the year-end 2005. In December 2006, the Company obtained a surplus note in the amount of \$2,500,000. From this surplus note, \$250,000 was used to satisfy an existing surplus note leaving \$2,250,000 on deposit.
 - g. The Company does not have adequate controls in place to ensure that all premium remittances are received and properly accounted for. It was determined that \$439,547 was incorrectly reported as uncollected premiums. One of the problems was the fact that some premiums were more than 90 days past due from AIGA.
7. On July 11, 2007, the Department received written comments regarding this examination from J. Matt Lile, III, President of the Company. The Company addressed the discrepancies listed above in paragraph 6. The action being taken by the Company is described below:
- a. A Form A has been filed with the Department. The bylaws will be amended to reflect the new ownership of the company once the Form A is acted upon.

- b. A new conflict of interest statement has been filed with the Department to correct the problem identified in the examination.
- c. The Company has asked its independent audit firm to review the record keeping procedures and make recommendations to correct the problems identified in the examination.
- d. The Company will consult its actuary to set up a properly formulated Loss Adjustment Expense reserve.

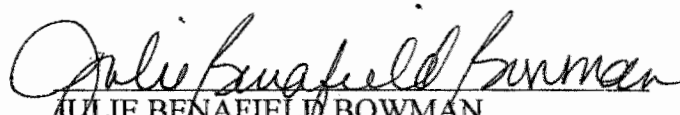
THEREFORE, pursuant to the provisions of Ark. Code Ann. Section 23-61-205, the Commissioner hereby orders:

- 1. That the Examination Report as filed with the Department is hereby adopted;
- 2. That the Company shall, or has agreed to take the following remedial action:
 - a. The number of directors will be increased to comply with the bylaws or the Bylaws will be amended to reflect the current number of board members. This should be completed within sixty days of this Order;
 - b. The Company shall establish a loss adjustment expense reserve within 60 days of its receipt of this Order.
 - c. The Company shall properly classify its stop-loss premiums on all reporting beginning in the third quarter of 2007.
 - d. The Company shall file with the Department within 60 days of receipt of this Order its plan to bring its record keeping and accounting procedures into compliance with statutory accounting principals.
 - e. The Company shall file with the Department within 60 days of receipt of this Order, its plan to properly track and account for all premiums received. It should also file with the Department procedures to be followed and steps to be taken to enforce its management agreement with AIGA in regards to the premiums received by AIGA.
- 3. That the Department shall forward a copy of this Order and the adopted Examination Report to the Company via certified mail;
- 4. That within twenty (20) days of its receipt of this Order and the adopted Examination

Report, the Company shall file with the Department affidavits executed by each of its Directors stating under oath that they have received a copy of this Order and the adopted Examination Report; and

5. That the adopted Examination Report will be open for public inspection upon the expiration of thirty (30) days from the Company's receipt of this Order.

IT IS SO ORDERED this 16th day of August, 2007.


JULIE BENAFIELD BOWMAN
INSURANCE COMMISSIONER
STATE OF ARKANSAS